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Consultative selling and the road to poverty

Distributors must begin to evolve from the personal selling and consultative selling model to a service marketing approach.

by Scott Benfield

For years, experts advocated the concept of the outside seller as consultant to land new business by solving complex customer problems. The strategy has many names, including value-added selling, application selling and consultative sales.

The gist of the paradigm is this: Industrial sellers should become intimately involved with their manufacturers' products (most of which are not exclusive), spend valuable time understanding those products and use their extensive knowledge of product advantages and process rework to save the customer time and money.

Consider the typical seller for a local cutting tool and abrasives distributor. The prevailing logic is that he should learn about cutting tools and abrasives and go to the local manufacturing customer or prospect to talk to the production manager or line engineer. He documents the current manufacturing process and reworks it with his products to save the customer direct labor, material, or overhead manufacturing costs.

The logic is sound and has worked successfully. A spate of seminars on selling value-added(s) attests to the strength of the philosophy and belief by sales managers that it works. As products and industries mature, however, the unique ability to consult on product advantages wears thin.

Why? Quite simply, mature products offer fewer application or technical advantages for any manufacturer and its distributors. There's also increased pressure on purchasers to shop price on any one order. Simply because the seller has the best proposal to reduce overall costs doesn't guarantee he or she will win the sale. If you don't agree, consider the following sales scenario in light of your own experience.

The consultative seller

Joe is a talented seller with years of experience. He knows the products and how they can save time and money, and has a knack for rearranging manufacturing processes to make industrial customers more efficient. He may even be an industrial engineer turned seller to manufacturers that previously employed his expertise. It's highly likely that Joe can (and must) use non-exclusive products and his hard-won talents to save process costs for the customer.

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Let's say Joe goes to A Widget Company and uses Tough Grinding Wheels and his own process knowledge to take \$1 in direct costs out of Product Line B. Let's also suppose Product Line B produces 100,000 units. The savings to A Widget are, of course, \$100,000. If you buy today's logic, A Widget would give Joe an order for his Tough Grinding Wheels as long as they were less than \$100,000.

This scenario epitomizes the consultative selling and value approach of combining process and product knowledge to reduce customer costs. But consider if the following has ever happened to you. Let's say Joe does the miracle work that A Widget can't do. He rearranges processes and applies non-exclusive products to save money. He also bets on the good graces of A Widget's purchasing establishment to give him the order for Tough Wheels. However, two weeks after his presentation, A Widget sends Joe's product specs out for bid and uses his process redesign suggestions to change Product Line B. A competing distributor wins the bid using the same Tough product at a sub-10 percent margin.

What happened? Are A Widget's purchasers the ingrates they appear to be? Is Tough Grinding Wheel Company to blame for setting up competitive distribution? Or are Joe and his sales management leaving themselves vulnerable? Are they confused about their real value-added and what they are selling?

Service as value and the role of marketing

There's an emerging school of thought regarding Joe's dilemma.

It is far from popular and somewhat controversial, but it may be the answer distributors need in the dynamics of the e-business marketplace. The general theory is that a distributor's value-added is 75 percent service and 25 percent product. This is different from a value proposition where products held the limelight and product knowledgeable sellers were king.

In times past, 25 percent of the value equation was related to service and 75 percent pertained to product uniqueness. Most wholesaling industries have less than a handful of manufacturers in any product group. Product technology has reached a point of maturity and saturation where two to five players make products similar in performance, design and price points. While there is no such thing as a commodity product, some come very close. If you don't believe it, try to differentiate a shop brush, drill bit or off-the-shelf grinding wheel.

Granted, you can differentiate some products, but these are few and far between. New products, technical products and existing products in new segments offer some relief. However, most manufacturers have come down a steep performance curve and their current cost reduction method is to move production operations overseas to diminish direct labor costs.

A dangerous game

Trying to compete on product differentiation in a commodity

industry may not be the best approach. Advocating product differentiation as a major sales strategy is dangerous. Sending sales managers and sellers out with these tools may do more harm than good. Diminishing product differentiation and buyer loyalty requires a new value proposition.

Consider, for a moment, that distributors manufacture and sell service. If this is distribution's true value-added equation, then management techniques must change. If distributors manage to
a product paradigm in a service market, no wonder consultative selling on product features and benefits is not as successful as it used to be.

Using old paradigms in a new market, Joe gave his value away in hopes of making a commodity product sale that was put out to bid. He lost the order because Joe's expertise costs big bucks. Rolling his unique knowledge into a commodity or non-exclusive product confuses the customer, mitigates the service value proposition and causes his "product" price to soar.

Bundling unique services into commodity products commoditizes the service. Customers identify the distributor with the commodity, not the valued service. Bundling services with commodities causes other problems. Distributors often create new services to sell more commodities. When the sale falls through, the new service (unless canceled) adds cost without top-line value. Often, salespeople offer the new service indiscriminately to customers and, if the service is popular, it causes capacity constraints that eventually lead to quality problems. Finally, giving services away conditions the customer to expect the same behavior ad infinitum.

Most distribution managers give some credence to the idea of unbundling services and making them fee-based. Unfortunately,
many managers confuse value propositions by bundling them with commodities.

The sales-driven nature of most distributors must change from selling products (or consulting for them) to marketing unique services. In essence, distribution becomes less of a product game and more of a service game.

Sound marketing says Joe should charge for his consulting advice separate from the products he sells.

Supporting evidence

Sales managers often warn, "If I charge for the service, my customers won't pay me!" Service marketers reply, "If they take your consulting advice and buy someone else's product, you're not getting paid now. You're also subsidizing the selling efforts of your competition. And, if you perform specification work without getting paid for it, you assume warranty risk with no physical product sale."

Many customers expect distributors to give away service to get the commodity sale. In reality, distributors may not give away the service, but roll the cost of the service into the cost

of operations and bill it to somebody, somewhere. The customer thinks the service is more or less free since there is no visible cost. The problem with bundling unique services with commodity products is that distributors risk denigrating their value-added to an undifferentiated product price, not a service value. The challenge is to rethink value propositions along service lines and charge for them.

This argument is bolstered by the recent history in large supplier-managed inventory or integrated supply agreements. Many distributors priced the products and assumed an average cost of operations to serve large customers. In reality, they found that basing the price on product cost was not smart. The product volume went up and the product cost from suppliers came down. But the service needs of the customer, dependent on one or a few suppliers, skyrocketed at a rate faster than product usage. In the end, the million-dollar deal was not financially viable.

Why? Manufacturing has many fixed costs. After reaching break-even volume, manufacturers have the luxury of reducing price at higher volume levels. Services, however, are more or less variable expenses that vary directly with volume. Large service needs can actually rise faster than product sales. In short, services filled to over capacity need huge capital influxes to maintain quality.

Many large inventory-managed contracts required extraordinary services or new services that demanded extra reporting or information systems work. The extra service costs weren't captured in the product price but were part of the distributor's operating expense. Since the distributor used a product cost-plus method to price the agreement, the extra service fees weren't captured. The result: agreements with lousy (mostly negative) activity-based profits. As of this writing, many distributors are rethinking competing for these agreements, and several integrators, unable to adequately cost and charge for service, are going under.

Many distributors are working diligently to unbundle services and charge for products separately. The task is daunting since distributors they compete against don't understand this and customers have a jaundiced view of paying for a service they can get "free" elsewhere.

Other industries have navigated these waters successfully. For example, unable to make a living "buying and selling" the ultimate commodity - money - banks began to develop and market financial services decades ago. They also began charging fees for high-transaction customers or set a minimum level of sales (deposits) before offering "free" services.

Insurance companies differentiate their offerings into branded services specific to market segments. Finally, hospitals and some medical practices offer services for customers based on their lifestyle, age, genetic history, etc. They design many medical services to prevent disease vs. yesteryear's focus to cure illness.

If banks, insurance companies and the medical profession

can do it, why can't distributors?

Hope for the future

Not all services are candidates for unique products. Distributors will still price some services - such as the basics of picking, packing, breaking bulk, carrying credit and delivery - with the product.

For these, the key is process documentation and taking out cost by streamlining, while maintaining (or increasing) quality. But distributors can position other services as unique offerings, brand them and sell them outright, separate from products. The service must be researched, pilot-marketed, advertised and priced to reflect its economic value. The process is called the New Service Development (NSD) and it's similar to product development done by manufacturers.

Service products can be as numerous as the unique needs of customer segments. For example, here are common fee-based services found in distribution:

Night-time delivery to a secured container.

Technical service fees for problem-solving or applying technical products.

Design and layout fees for manufacturing processes or new construction.

New product design fees for unique applications.

Inventory management fees for onsite warehousing.

Consultation fees for solving administrative hassles.

There are many other examples of service products. The time is right to begin to unbundle and develop them where possible.

The big picture

As distributors rethink their value-added and make it unique to what they manufacture and control (their service), they'll need to revamp measurement and reward systems. Distributors currently use measurements based on products, including sales, returns, fill rates, margins, etc. In the future, distributors must measure, change and set fees for services.

It will require tools such as satisfaction research, ISO 9000:2000 measurements, complaint resolution and activity costing. Qualified marketers will help change the product-push sales culture. Integrating marketing with operations will require administrative genius.

The push for change will come from many directions. Increasing product commoditization will give distributors the impetus to differentiate by service value. E-business will allow customers to compare product prices across multiple vendors. Distributors will escape being price-shopped into poverty by differentiating their services.

Service management, measurement and change are not a

wish list. It is a fundamental and dominating part of distribution's value and it is quite different from yesterday's product-push. Those who invest in the new tools and courageously apply the new knowledge will escape the commodity status of their products and develop a value statement unique to their service capabilities.

Today, these are fledgling efforts. But change is on the horizon. More distribution managers are tiring of consultative selling of cloned product features and benefits. They're searching for a better definition of unique value that allows controllable differentiation and better profits. Distributors that walk away from service development and management have only themselves to blame and will compete in a world of decreasing product value and profit.

Scott Benfield is a consultant and marketing manager for a distribution company. He has authored a book on service management for wholesalers entitled "Services That Sell." It is available from the NAW at www.nawpubs.org. He can be reached at Bnfdgdp@aol.com.

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